

**STATE OF MICHIGAN
DEPARTMENT OF CONSUMER AND INDUSTRY SERVICES
OFFICE OF FINANCIAL AND INSURANCE SERVICES**

Before the Commissioner of Financial and Insurance Services

**In the matter of the use of credit
scoring in setting personal automobile
and homeowners insurance rates**

NO. 02-018-M

NOTICE OF PUBLIC HEARINGS

Please take notice that the Commissioner will hold a series of public hearings concerning the use of credit scoring in setting personal automobile and homeowners insurance rates. The Commissioner is authorized to make determinations with respect to the use of credit scoring in rating plans under Section 2110a, 2403, and 2603 of the Insurance Code of 1956, as amended, MCL 500.2110a, 500.2403, and 500.2603.

The broad purpose of the hearings is to gather information on the use of credit scoring in personal automobile and homeowners insurance policies and testimony concerning its effect on Michigan consumers. Credit scores are derived from one or more formulas based on factors in a person's credit history.

In Michigan, insurance companies cannot use credit scoring in underwriting automobile or homeowners insurance. This means that an insurance company cannot refuse to write a policy, cancel a policy or non-renew a policy based on a person's insurance credit score.

However, many insurance companies have started to use credit scoring in determining the rate a person will pay. For policies written on an individual basis, this will be described as a discount that a person may or may not be eligible for depending on the person's credit score.

Because there is no intuitive connection between a person's credit history and the likelihood that they will incur a loss, this practice has become controversial and raised several questions. Lack of knowledge as to how credit scores are derived and what a person can do to improve their score has been raised as a concern, in addition to the overall fairness of the practice.

During the public hearings, the Commissioner will be particularly interested in receiving information on the following topics:

1. What types of insurance credit scoring formulas are currently being used in Michigan? Do formulas vary from company to company?
2. Is there evidence that credit scoring is a reliable predictor of loss? If various formulas and scoring systems are in use, can all of them verify that their program is a reliable predictor of loss?
3. If a person lacks enough credit history to generate a score, how are they treated? For example, are such people given the mid-range discount available, since they score neither as a “good” or “bad” risk? Does the lack of credit history have a disparate impact on various groups? For example, are the young, the elderly, minorities, or people with a low-income more likely to lack a credit history?
4. How are “hits” treated? For example, if a person is shopping for insurance, a credit card, or a mortgage, their credit history is likely to record numerous hits caused by requests to view the person’s credit history. Will a certain number of hits result in a lower insurance credit score?
5. What is the range of credit scoring discounts now being used?
6. How widespread is the practice of credit scoring?
7. Are consumers aware that the price they pay for their automobile and homeowners insurance may be based on a credit score? Does the annual Notice of Rating Systems currently provide enough detail and clarity so that policyholders can reasonably verify the applicability and accuracy of rating classifications used by their insurance company?
8. Are consumers aware of what their insurance credit score is, what it is based on, and what they could do to improve it?
9. Are consumers receiving information on how to obtain a copy of their credit history and how to correct errors?
10. Generally speaking, how is credit scoring affecting Michigan consumers? Have consumers encountered problems? If so, what type of problems?
11. Is credit scoring currently being used in a fair manner? Are there improvements that could make programs fairer?
12. What is the role of insurance agents? For example, do insurance companies expect agents to explain credit scoring to their customers, and, if so, what type of supporting documentation and training are they providing to their agents?
13. Do any insurance companies limit access to monthly or quarterly premium payment plans based on a policyholder’s credit score?
14. What has been the experience of insurance agents in connection with credit scoring?
15. When insurance companies or agents provide premium quotes, do the quotes take into account a person’s credit score if the insurance company has a credit-scoring program?
16. Is the use of credit scoring discounts consistent with the purposes of the Essential Insurance Act?

Notice of Public Hearings

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The public hearings will be held at the following dates, locations, and times:

Tuesday, June 4

Cadillac

Hearing to be held from 4:30 p.m. – 6:30 p.m.

Wexford County Civic Center

1320 North Mitchell

Cadillac

Telephone 231-779-9520 ext. 102 for directions. Must call 8:00 a.m. – 5:00 p.m., Mon.-Fri.

Thursday, June 13

Portage

Hearing to be held from 4:30 p.m. – 6:30 p.m.

Portage City Hall

7900 South Westnedge

City Council Chambers

Portage

Telephone 616-329-4412 for directions. Must call 8:00 a.m. – 5:00 p.m., Mon.-Fri.

Saturday, June 15

Port Huron

Hearing to be held from 11:30 a.m. – 1:30 p.m.

City Hall

200 Grand River

Board of Commissioners Room, 2nd Floor

Port Huron

Telephone 810-989-6900 for directions. Must call 8:00 a.m. – 5:00 p.m., Mon.-Fri.

Tuesday, July 9

Lansing

Hearing to be held from 4:30 p.m. – 6:30 p.m.

Foster Community Center

200 North Foster

Lansing

Telephone 517-483-4235 for directions. Must call 8:00 a.m. – 5:00 p.m., Mon.-Fri.

Thursday, July 11

Grand Rapids

Hearing to be held from 5:30 p.m. – 7:30 p.m.

City Hall

300 Monroe, N.W.

City Commission Chambers, 9th Floor

Grand Rapids

Telephone 616-456-3655 for directions. Must call 8:00 a.m. – 5:00 p.m., Mon.-Fri.

Thursday, July 18

Detroit

Hearing to be held from 4:30 p.m. – 6:30 p.m.

Wayne County Community College

Downtown Campus

1001 West Fort Street

Room 123

Detroit

Telephone 313-496-2730 for directions. Must call 8:00 a.m. – 5:00 p.m., Mon.-Fri.

Notice of Public Hearings

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Written testimony is welcome. Written summaries of testimony, data, views and comments will be accepted at the hearings. People are also encouraged to forward written submissions by July 15, 2002 to:

Office of Financial and Insurance Services
ATTN: Kathleen Parsons, Deputy Commissioner
Securities and Insurance Offerings Division
PO Box 30220
Lansing, MI 48909

Comments may also be forwarded to this agency's website, www.cis.state.mi.us/ofis, by clicking on "credit scoring" on the home page.